

## Economic Development of Ellada

### Development of Greece in the Past Decade

A fundamental paradox is apparent in the Greek economy: Greeks are industrious and capable people who are successful worldwide as merchants, entrepreneurs, scholars, politicians and scientists yet the Greek economy performs poorly. It is chronically backward when compared to western European economies and it is even outperformed by the southern European economies of Spain and Portugal.<sup>1</sup> Greece fails to attract the confidence of foreign investors. The benefits associated with EU monetary support have not been realized in the area of infrastructure development. These shortcomings reflect the fact that individual abilities cannot be equated with collective performance due to intervening variables that impede economic development.

Throughout much of its modern history, the Greek economy has been in a state of stagnation and even crisis due primarily to internal developments having external implications.<sup>2</sup> In seeking to establish her internal viability, Greece looked beyond her borders to foster external credibility as a new nation. During the nineteenth century Greece was saddled with debts left over from the revolutionary period of the 1820s. This period marked a relentless dedication to the *Megali Idea* under which the borders of Greece continually sought expansion to include all those Greeks living in foreign lands. The implications of such a mission consistently brought Greece to the brink of war with her neighbors because her frontiers were unsettled. Greece finally acquired her permanent frontiers in the twentieth century, yet crises continued to thwart economic development. In addition to the two world wars that engulfed all of Europe, Greece also endured the Balkan wars in the 1910s; the Asia Minor crisis and the ensuing massive influx of refugees in the 1920s that doubled the population; and the civil war in the 1940s. Intervals of peace provided little respite for the Greek economy as other obstacles remained as bulwarks to economic growth, namely geography and history.

In 1974, politics, geography, history and economics came head to head in one of the greatest debacles in modern Greek history. Politically, the climate improved as the military dictatorship that ruled Greece for seven years toppled and democracy was reinstated. Geographically, Greece became embroiled in a conflict with Turkey over the fate of Cyprus thus bringing strife closer to the already devastated mainland. Historically, Greek animosities toward the West were stirred by U.S. support of the military junta as well as U.S. indifference to the situation in Cyprus. Economically, Greece was left reeling from the effects of the first oil crisis more so than other countries worldwide.

The newly elected Prime Minister, Kostas Karamanlis, faced the daunting task of simultaneously resurrecting the economy as well as easing political tensions through the establishment of a solid democratic regime that would assuage both internal (domestic) and external (international) concerns. The government endeavored to find an integrative force that would restore democratic institutions and foster long-term economic interests for a very politically and economically unstable Greece. Abandoning the nationalist isolationist rhetoric employed by previous governments as a means of stabilization,

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<sup>1</sup> Stavros B. Thomadakis. *The Greek Economy: Performance, Expectations and Paradoxes*. 39.

<sup>2</sup> *Ibid.*, 41

Karamanlis turned to the unifying power of the European Union to restore the country to normalcy. In making this decision, Karamanlis anticipated EU membership would hold two important implications for Greece. First, the democratic thrust of EU policies, as well as the democratic nature of its members, would stabilize the Greek political environment. Second, the integrated economic policy of the EU would both foster the recovery and augment the development of the Greek economy. Thus, the years following 1974 marked the first of four phases of EU membership that may be characterized as “preparatory and enthusiastic,” culminating with the ratification of the accession treaty in 1981.<sup>3</sup>

Unfortunately, relations between the EU and Greece soured with the change of government in 1981. The newly elected and highly enigmatic Prime Minister Andreas Papandreou derived his political origins from the traditionalist camp that opposes Western influence.<sup>4</sup> His charismatic nature drew a large constituency that, irrespective of the soundness of his logic, supported his views as well as his approach. The second phase of tension in EU-Greek relations came to a close in 1989 with the election of pro-Western political elements in 1990. This third phase of the relationship proved to be the most intimate as the political leadership matched its objectives to those of the EU.<sup>5</sup>

The fourth and final phase in the EU-Greece relations begins in 1993 and stretches into the present. Prime Minister Papandreou reclaimed power in 1993 and two aspects of this phase indicated an initial reversion toward the second phase of EU-Greece relations characterized by hostility.<sup>6</sup> First, Papandreou’s earlier mistreatment and distrust of the EU failed to capture the confidence of EU leaders thus making them pessimistic about his return to power.<sup>7</sup> Second, Greece was embroiled in conflicts in Yugoslavia, Macedonia and elsewhere in the Balkans that created psychological and political complexes in the minds of Greeks thereby fostering isolationist and traditionalist tendencies in public opinion.<sup>8</sup> The departure of Prime Minister Papandreou from power in 1996, however, paved the way for the current Prime Minister Kostas Simitis who is younger, less ideological, less nationalistic and more pro-Western<sup>9</sup> and, thus, greatly in favor of normalizing EU-Greece relations.

The turbulent evolution of Greece’s position within the EU reveals a fundamental link between politics and economics. Greek politics tend to be heavily influenced by nationalist concerns that are intrinsically linked to external threats. Economic policy, in turn, is promulgated in response to those threats thereby making it more susceptible to external changes. Thus, integration into an international economic system that must, by nature, consider external variables rendered the economy more vulnerable in periods of international conflict. For example, the integration of the Greek economy in the EEC in 1974 exposed it more directly to the 1976 oil shock and, therefore, affected it more drastically.<sup>10</sup> To a great extent, this causality may be explained by the Greek perception that economic power is highly fungible. In other words, economic power translates into

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<sup>3</sup> Greece and the European Community. Member State Perspective Report.

<sup>4</sup> Ibid., 3.

<sup>5</sup> Ibid., 3.

<sup>6</sup> Ibid., 3.

<sup>7</sup> Ibid., 3.

<sup>8</sup> Ibid., 3.

<sup>9</sup> Greece and European Community.

<sup>10</sup> Stavros Thomadakis, 43.

power in other areas; as applied to Greece, economic success means security.<sup>11</sup> This causal relationship indicates two of the greatest obstacles that Greece must overcome in the coming millennium. First, Greece must seek to eliminate security concerns that hinder the economy's long-term development. Second, with economic improvement Greece must invest in regional economic development that will benefit both her economic and international aspirations in the long-run.

1981 marks a watershed year in which Greece, and others in Europe, delved into the international integration process whose ramifications were felt economically and politically. The integration process symbolized the country's incorporation into a transnational European institution that would assist Greece in making the necessary reforms to achieve economic viability and, as an extension, security. Namely, the process required modernization and reform of Greek social, political and economic structures that would bring her into alignment with other member countries.<sup>12</sup> Integration fundamentally transformed both the European and the international environment thus bringing to light the structural weaknesses of Greece's model of socioeconomic development, as compared to her EU counterparts. The realization of her structural weaknesses called attention to understanding *why* underdevelopment afflicted Greece.

Theories of international economics posit that Greece's small size greatly impacts her development potential. The combination of a small population and low incomes greatly hampers a country's industrial development, which is a critical input for economic growth. Economic theory also holds that countries like Greece will require an exceptional combination of factors to break out of these restraints.<sup>13</sup> Successful export development, then, appears a necessary prerequisite to economic growth.<sup>14</sup> As a general rule, small developing countries find manufacturing exports more difficult to produce on a large scale than non-industrial exports. Greece is no exception as her primary export items are agricultural goods and services.<sup>15</sup> Attempts to revitalize export industries, therefore, rely heavily on investment in the services sector, namely in the area of tourism which demonstrates tremendous growth potential. Further, since the small domestic market has traditionally favored light industry while discouraging more profitable "intermediate" or "heavy" industry,<sup>16</sup> the climate is ripe for infrastructure projects that will both enhance industry development as well as tourist development. Establishing necessary modern infrastructure will facilitate the transport of industrial goods to more lucrative regional markets. Additionally, modern infrastructure would enable Greece to access revenues generated by mass tourism appeal.

Trade theory supports the notion that Greece's geographic location inhibits her potential for developing trade relationships that would otherwise spurn economic growth. Her position in the Southeast Mediterranean is a long way from the large European

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<sup>11</sup> Kalypso Nicolaidis. *Introduction: What is the Greek Paradox?*, 9. In: Graham T. Allison & Kalypso Nicolaidis. *The Greek Paradox*. Cambridge: The MIT Press, 1997.

<sup>12</sup> Nikoforos Diamandoros, 30. In: Graham T. Allison & Kalypso Nicolaidis. *The Greek Paradox*. Cambridge: The MIT Press, 1997.

<sup>13</sup> Stavros Thomadakis. 41.

<sup>14</sup> *Ibid.*, 41.

<sup>15</sup> *Ibid.*, 41.

<sup>16</sup> *Ibid.*, 41.

markets. This, in turn, makes it difficult for Greek products to penetrate the Western European countries' markets putting Greece at a disadvantage compared to other EU members.<sup>17</sup> Further, Greece's natural trade zone to the north has been isolated throughout the postwar period by boundaries coinciding with the iron curtain.<sup>18</sup> Though Yugoslavia operated as a passageway through that frontier, its status as a war zone in the 1990s precluded its use as a trade route. Greece's natural eastern trade zone has been rendered obsolete by war in the Middle East as well as by Turkey's status as Greece's major military and political adversary. Thus, Greece's economic under-development may be attributed to the fact that she enjoys fewer economic contacts with, and benefits from, her neighboring countries than other EU members.<sup>19</sup> Reversing the underdevelopment trend, then, would entail establishing normalized trade relations with neighboring countries so as to allow Greek exporters to gain access to regional markets.

Theories of international economics and trade aside, Greece's underdevelopment can most plausibly be explained by the public sector's opposition to reform. The state controlled sector includes the civil service and those powerful public utilities that enjoy monopolistic or oligopolistic status in the economy.<sup>20</sup> Examples of such entities include the Public Power Corporation, Greek Telecom and Olympic Airways of which close to 90 percent of the shares are under direct or indirect state control.<sup>21</sup> The public sector's resistance to reform arises from fear posed by the prospect a shrinking state sector. Specifically, reforms designed to liberate the state and market in Greece from the traditional hindrances of antiquated structures and practices threaten those individuals with a vested interest in those traditional aspects of the economy.<sup>22</sup> Individuals employed or protected by the public sector exemplify groups who benefited from the traditional role of the public sector in Greek life. These traditionalists must decide to forego personal gain in favor of reform for the sake of national economic viability. Fortunately, the opposing reformist camp has been successful in partially dismantling those traditional belief structures as reflected by the wide recognition that the Greek economy's performance falls short of its potential.<sup>23</sup>

The internal layout of an economy is an important determinant of (or constraint on) its performance, thereby necessitating examination of those structural features that have implications for economic performance.<sup>24</sup> To this end, the primary focus should consider two structural elements; first, the degree of openness the economy has toward foreign trade; and second, the relative weight of its industry.<sup>25</sup> This rubric of examination reveals two things about Greece; first, the economy is open to trade; and second, Greece

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<sup>17</sup> Ibid., 43.

<sup>18</sup> Ibid., 43.

<sup>19</sup> Ibid., 43.

<sup>20</sup> Nikoforos Diamandoros, 30. In: Graham T. Allison & Kalypso Nicolaidis. The Greek Paradox. Cambridge: The MIT Press, 1997.

<sup>21</sup> Nikoforos Diamandoros, 30. In: Graham T. Allison & Kalypso Nicolaidis. The Greek Paradox. Cambridge: The MIT Press, 1997.

<sup>22</sup> Ibid., 31.

<sup>23</sup> Ibid., 31.

<sup>24</sup> Stavros Thomadakis, 49. Nikoforos Diamandoros, 30. In: Graham T. Allison & Kalypso Nicolaidis. The Greek Paradox. Cambridge: The MIT Press, 1997.

<sup>25</sup> Ibid., 49.

is considerably less industrialized than her other EU partners, including Spain and Portugal.<sup>26</sup>

In the early 1980s Greek openness to international trade showed a marked increase reflecting the new opportunities created by Greece's accession into the EU. The reciprocal nature of international trade, however, has yet to positively impact economic development as Greek products have failed to penetrate the EU market to the same degree as EU products penetrate the Greek market.<sup>27</sup> Additionally, lack of industrialization inhibits the economy's capacity to absorb technology and generate those advances in technology that might otherwise enable Greek products to penetrate the larger European market.<sup>28</sup> The existing correlation of structural features and performance data harkens to the aforementioned theories of international economics and trade insofar as a "small, open economy with low industrialization is quite sensitive to economic cycles and events in the international sphere."<sup>29</sup> In other words, Greece cannot engineer and sustain economic growth on her own, but requires external support from a stable and prosperous international economic environment.

Traditionally, the state has always played a significant role in managing the Greek economy. In fact, the two periods of substantial economic growth correspond directly with periods of increasing state intervention. First, following World War II heavy regulation was deemed necessary as a means of normalizing the ensuing chaos of the period.<sup>30</sup> Second, the "economic miracle" of the 1960s evolved under very strict government regulation of consumer prices, interest rates, credit and investment selection.<sup>31</sup> The temporal validity of these regulatory mechanisms remains undisputed yet their erosion over time into mechanisms of political favoritism greatly undermines their credibility. The protectionist and isolationist slant of state intervention corresponds nicely with traditionalist thinking that permeates Greek society thereby revealing, to a large degree, why old practices persevere. Further, the lethargy characteristic of both deregulation and privatization processes arises from the resistance where the stakes are highest, in the public sector.<sup>32</sup>

The static nature of structural development efforts speaks to the fact that Greece cannot, alone, foster the necessary pre-conditions for economic vitality. The objective environment of the EU provides the external stability and the prosperity considered pre-requisites to Greek economic growth. The environment imposed on Greece by entry into the EU, therefore, makes structural reform a non-reversible policy option for the country's development.<sup>33</sup> The EU's prescription for development, however, requires a heightened sense of awareness that *reform is inevitable*, despite the existence of groups

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<sup>26</sup> Ibid., 49.

<sup>27</sup> Ibid., 49.

<sup>28</sup> Ibid., 50.

<sup>29</sup> Ibid., 50.

<sup>30</sup> Stavros Thomadakis, 51. In: Graham T. Allison & Kalypso Nicolaidis. *The Greek Paradox*. Cambridge: The MIT Press, 1997.

<sup>31</sup> Ibid., 43.

<sup>32</sup> Nikiforos Diamanduros, 32. In: Graham T. Allison & Kalypso Nicolaidis. *The Greek Paradox*. Cambridge: The MIT Press, 1997.

<sup>33</sup> Ibid., 33.

negatively affected by structural changes, thus lending legitimacy to the developmental process.<sup>34</sup>

The Greek public sector, as suggested earlier, impacts both economic performance and structure and, as such, is often “demonized as the main culprit of Greece’s economic woes.”<sup>35</sup> In response to this negative classification, state credibility and legitimacy would benefit from a qualitative transformation that includes withdrawal from direct involvement in both economic production and regulation.<sup>36</sup> This is not to say, however, that the economy would necessarily benefit from total state withdrawal. Rather, the state should be flexible to selectively intervene either in matters that encourage more integrated logic or in situations that enhance the Greek economy’s competitiveness.<sup>37</sup> To this end, the state must adopt both concise and coherent privatization and deregulation policies and, as well, must ensure their consistent implementation in order to enhance state credibility and legitimacy.

In the latter half of the 1990s the public sector underwent considerable restructuring. The ramifications of these changes, however, may not yet be revealed by available economic performance statistics.<sup>38</sup> Some examples of recent reforms include, substantial deregulation, extensive privatization and infrastructure development. Available data indicates a positive trend toward the stabilization of both inflationary trends and the level of public debt.<sup>39</sup> The 1993 election of Prime Minister Kostas Simitis inaugurated a new reformation era spearheaded by PM Simitis’ leadership. Simitis’ views regarding potential development posit the following:

In the competitive conditions of the European Union, we view competition not as a threat but as a development tool. In the environment of fast change, frequent realignment, and unforeseen evolution, the concept of a static, permanent and unchanged comparative advantage loses its practical meaning. Comparative advantage in the modern environment is dynamic and must be earned. The comparative advantage must not be taken for granted. It is always under formulation and should be conquered. The state should secure the conditions under which competition among sectors, activities, and enterprises will promote those which can better meet competition.<sup>40</sup>

Following his own rhetoric, PM Simitis embarked upon a mission to develop a credible policy to privatize public sector enterprises that would serve to enhance their competitiveness and efficiency. In the spring of 1996 policy transformed into action with the introduction of shares of public sector utilities onto the Athens Stock Exchange.<sup>41</sup>

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<sup>34</sup> Ibid., 33.

<sup>35</sup> Stavros Thomadakis, 51. In: Graham T. Allison & Kalypso Nicolaidis. The Greek Paradox. Cambridge: The MIT Press, 1997.

<sup>36</sup> Ibid., 34.

<sup>37</sup> Nikiforos Diamanduros, 34. In: Graham T. Allison & Kalypso Nicolaidis. The Greek Paradox. Cambridge: The MIT Press, 1997.

<sup>38</sup> Ibid., 34.

<sup>39</sup> Stavros Thomadakis, 55.

<sup>40</sup> Costas Simitis. Economic Trends, 4.1-2. In: Doing Business in Greece.

<sup>41</sup> Georgos Politikas.

Greek telecom allowed strategic investors to purchase up to 49 percent of its shares and Olympic Airways offered between 50 and 60 percent of its shares.<sup>42</sup> The public consensus that economic stability should supercede factional interest differences in Greek polity reflects heightened collective awareness of the prerequisites to economic development.

Yet obstacles remain that inhibit economic stability, namely, Greece's geostrategic location. Greece is surrounded by antagonism and strife in neighboring countries which, in turn, acts as an indirect obstacle to its economic growth. Due to adjacent areas of conflict, namely the Middle East and Eastern Europe, Greece allocates a large percentage of its budget to military expenditures. During postwar peacetime, Greece spent an estimated 5.5 to 7 percent of its gross domestic product (GDP) on its military, more than any other European country.<sup>43</sup>

This is a major point because if only half this amount had been devoted to encouraging domestic investment then Greece's long-term investment rate would have exceeded, rather than fell short of, the European average during the 1960-1993 interval.<sup>44</sup> The decision to continue expending a large proportion of GDP on defense is directly related to the perceived fungibility of economic power vis-à-vis security. As defense expenditures are the single most important contributor to Greece's external debt, however, it would seem that the opposite is true. That is, security investments are not highly fungible vis-à-vis economic development, but rather are inhibitive.

The elimination of political-military bipolarity by multilateral institutions like the EU will likely intensify economic competition between the three dominant economic powers: the United States, Europe and Japan.<sup>45</sup> Countries will be unable to offset economic inefficiency by substituting the strategic-military advantages offered by their geostrategic location. Thus, achieving economic viability becomes all the more important to Greece in the coming millennium. Economic productivity and international development represent two decisive variables that transcend the traditionalist versus modernist dichotomy present in modern Greece.<sup>46</sup> That is, these environments are intrinsically linked to the Greece's future potential to stay abreast with the accelerated pace of EU integration and, as an extension, a related security arrangement.<sup>47</sup> Thus, the elaborate interweaving between economic and security interests represents a significant challenge to be addressed by Greece in the coming millennium.

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<sup>42</sup> Georgos Politikas.

<sup>43</sup> Ibid., 43.

<sup>44</sup> OECD, Historical Statistics (1995 edition) Table 6.8

<sup>45</sup> Dimitris Conostas, 75. In: Greece Prepares for the Twenty-First Century.

<sup>46</sup> Ibid., 71.

<sup>47</sup> Ibid., 76.